

**Notes to the Financial Statements
Typical School System
for the Year Ended June 30, 20x2**

Background

Section 49-2-110, *Tennessee Code Annotated*, provides for student activity funds, establishes responsibility for those funds, and requires schools to adopt and follow a uniform accounting manual. This section excludes parent-teacher and parent-student support organizations from the accounting, recordkeeping, and other requirements of this section.

Note A - Summary of Significant Accounting Policies

1. Financial Reporting Entity

This report includes only the activity funds of Typical School System.

2. Other Comprehensive Basis of Accounting

The accounting and financial reporting requirements for school activity funds are set forth in the *Tennessee Internal School Uniform Accounting Policy Manual*, issued by the Tennessee Department of Education. The requirements established in the *Tennessee Internal School Uniform Accounting Policy Manual* differ from generally accepted accounting principles primarily in the presentation of the financial statements. The following is a summary of the basic requirements of this other comprehensive basis of accounting.

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The activity funds use a financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Revenues are recognized when susceptible to accrual, i.e., when they become measurable and available. Management policies define available as collectible within 30 days, 60 days, or other time frame, after the fiscal year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, if measurable.

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Fund Structure

The accounts of the individual schools are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which are comprised of the fund's assets, liabilities, fund equity, revenues and expenditures. The general fund is used to account for revenues and expenditures which are not restricted to any specific group or activity. Restricted accounts are used to account for money that is restricted in use to a specific segment of the school population and not intended to benefit the general school population.

Financial Statement Presentation

The financial statements consist of a combined balance sheet and combined statements of revenues, expenditures and changes in fund balance. These statements focus on each of the individual schools rather than the funds within the schools. In keeping with that focus, the columnar headings identify the individual schools rather than the funds. These statements are required to be presented before the notes to the financial statements.

The individual school balance sheets and statements of revenues, expenditures and changes in fund balance present the detailed fund activity in each school and are included after the notes to the financial statements.

Sources of revenues and object level expenditures are presented for the general fund. Revenues and expenditures of the restricted fund are recorded based on the specific group or activity which will benefit or expend the funds. The activity in the restricted "accounts" is presented as total revenues and transfers in and total expenditures and transfers out for each account. A corresponding "fund balance" is presented for each account. Although the restricted fund is a single fund, each account within the fund must present its portion of the restricted fund balance. Transfers reported on the financial statements represent authorized movement of funds between restricted accounts as well as between funds.

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3. Inventory

Inventories are stated at lower of cost (first-in, first-out) or market (net realizable value). Inventory items are recognized as expenditures when used (consumption method). Fund balances have been reserved for the amount of inventories on hand at year end. Inventory from noncash assistance (commodities) is not recorded in the cafeteria fund in accordance with the *Tennessee Internal School Uniform Accounting Policy Manual*.

Note B - Collateralization of Deposits

Cash in bank represents funds on deposit in various depositories. These balances were entirely insured by the FDIC or through the Bank Collateral Pool with the State of Tennessee.

Note C - Commitments

1. Long-Term Noncancelable Leases

Typical School System has entered into certain noncancelable leases which have been approved by the local legislative body. These leases are reported as a part of the primary government's general long-term debt. However, the various schools are obligated to make the monthly payments on these leases.

City Elementary School entered into a lease agreement with Apex Corporation for the purchase of a copier. Monthly lease payments are \$400. The balance of the lease at June 30, 20X2, was \$2,360.

Minimum lease payments:

20X3	\$2,360
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Central High School entered into a lease agreement with Apex Corporation for the purchase of a copier. Monthly lease payments are \$400. The balance of the lease at June 30, 20X2, was \$3,200.

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Minimum lease payments:

20X3	\$3,200
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Note D - Fixed Assets

Fixed assets acquired by the individual schools are recorded as expenditures at the time of purchase. Title and accountability for fixed assets purchased pass automatically to the board of education.

Note E - Prior Period Adjustment

City Elementary School's beginning fund balance was adjusted by \$233 in order to properly reflect fund balance at July 1, 20X1. Revenue was not recorded in the prior year's financial statements, resulting in last year's revenue and ending fund balance being understated.

Central High School's beginning fund balance was adjusted by \$536 in order to properly reflect fund balance at July 1, 20X1. Prior year accounts payable were overstated resulting in expenses being overstated and fund balance being understated.